Twenty-eighth Annual Report

AUG 21 1939

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

FOR THE YEAR ENDED
December 31, 1938

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CAROLINA, CLINCHFIELD AND OHIO RAILWAY

BOARD OF DIRECTORS

JOHN B. DENNIS, *Chairman*	New York, N. Y.
EDWARD C. BAILLY	New York, N. Y.
M. N. BUCKNER	New York, N. Y.
T. J. CUNNINGHAM	New York, N. Y.
H. R. DENNIS	New York, N. Y.
W. W. MILLER	New York, N. Y.
J. W. PLESS	Asheville, N. C.
W. M. RITTER	Columbus, Ohio
H. H. VREELAND	New York, N. Y.

OFFICERS

JOHN B. DENNIS	*President*
EDWARD C. BAILLY	*Vice-President*
T. J. CUNNINGHAM	*Secretary & Treasurer*
WARREN P. EATON	*Ass't Sec'y & Ass't Treas.*
JOHN W. SANDERS	*Ass't Sec'y & Ass't Treas.*

MILLER, OWEN, OTIS & BAILLY — *General Counsel*

NEW YORK OFFICE — 1 East 57th Street

Stock Transfer Agent
and
Dividend Disbursing Agent

THE NEW YORK TRUST COMPANY
100 Broadway, New York.

Stock Registrar

BANKERS TRUST COMPANY
16 Wall Street, New York.

AUG 8 1939 A.E. WR GIFT REQUEST

TWENTY-EIGHTH ANNUAL REPORT

NEW YORK, April 1, 1939.

To the Stockholders of

CAROLINA, CLINCHFIELD AND OHIO RAILWAY:

The Twenty-eighth Annual Report of the Board of Directors, for the year ended December 31, 1938, is submitted herewith:

Under an indenture dated October 16, 1924, the properties of Carolina, Clinchfield and Ohio Railway and its subsidiaries were leased to Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company for a period of 999 years from May 11, 1923, at an annual money rental as follows:

3% on $25,000,000 Capital Stock, or $750,000 annually, for three years from January 1, 1925.

4% on $25,000,000 Capital Stock, or $1,000,000 annually, for ten years from January 1, 1928.

5% on $25,000,000 Capital Stock, or $1,250,000 annually, from January 1, 1938, to May 10, 2922.

In addition to the foregoing money rental, the Lessees agree to pay the interest charges on the outstanding funded debt of and guaranteed by the Carolina, Clinchfield and Ohio Railway and on any bonds that may be issued to refund the same.

The Lease also provides that the Lessees will pay all charges and other expenses in connection with the payment of interest, shall pay all taxes upon the franchises and leased property and the income thereof, and shall also pay a sum equal to the annual corporate expenses of the Lessors not in excess of $12,000 per annum. All rental payments under the Lease are the joint and several obligations of the Atlantic Coast Line Railroad Company and the Louisville and Nashville Railroad Company.

The Lease expressly provides that in case of the issuance of any additional capital stock of the Railway, it shall be stock of a class which has no right to participate in any dividends declared from the money rentals above mentioned, which money rentals have been fixed at the amount specified for the purpose of enabling the Railway to pay dividends upon the $25,000,000 par value capital stock at the rates and for the periods above mentioned, and are not intended to be used for any other purposes whatsoever. In consideration of these money rentals, the stockholder agrees with the Lessees that he will vote his stock in such manner as is necessary to carry out the provisions of the Lease from time to time.

The payment of the above-mentioned annual money rental is to be made in equal quarterly instalments beginning April 1, 1925, to enable the Lessor to pay dividends upon its $25,000,000 Capital Stock at the rates specified.

THE CLEVELAND PUBLIC LIBRARY

Possession of the leased properties was delivered to the Lessees on December 1, 1924, and the first payment of the money rental under the Lease was made to the Lessors on April 1, 1925. On April 10, 1925, the first dividend of 75 cents per share, payable out of said money rental, was paid by this Company to the record holders of the $25,000,000 par value of outstanding Capital Stock.

The making of the aforesaid Lease was authorized by the Interstate Commerce Commission on June 3, 1924 (Finance Docket No. 3131).

Dividends were paid during the year at the rate of four per cent per annum for the quarter ended December 31, 1937, and at the rate of five per cent per annum for the quarters ended March 31, June 30, and September 30, 1938, on the Railway's $25,000,000 Capital Stock, out of the money rental received from the Lessees, such money rental having increased, under the terms of the Lease as hereinbefore stated, from $1,000,000 to $1,250,000 per annum, the first quarterly instalment of which, at the increased amount, was received April 1, 1938.

On June 1, 1938, there became due and payable $14,150,000 of the Railway's First Mortgage Five Per Cent Thirty-Year Bonds, issued under and secured by the Railway's First Mortgage, dated June 1, 1908, to The Farmers' Loan and Trust Company, New York, N. Y. (now City Bank Farmers Trust Company), as Trustee, and funds to guarantee payment of same were deposited with said Trustee. To obtain the funds to enable the Lessees to pay said First Mortgage Bonds, this Railway, on May 27, 1938, issued and caused to be sold at par, for cash, to the Reconstruction Finance Corporation, its Promissory Note for $14,150,000, payable to Reconstruction Finance Corporation, or order, on or before May 27, 1943, with interest not to exceed five per cent per annum; and, on the same date, also issued $14,150,000 of the Railway's First and Consolidated Mortgage 5% Bonds, Series B, dated April 1, 1926, due April 1, 1956, and caused the same to be deposited and pledged with the Reconstruction Finance Corporation as collateral security for the above-mentioned Promissory Note. The Lessees of the Railway's properties have jointly and severally guaranteed the payment of the principal of, and the interest on, said Promissory Note, and have also assumed obligation and liability, jointly and severally, as provided in the Lease, in respect of the payment of interest on the Series B Bonds, which may become due and payable.

In connection with the foregoing refinancing, $850,000 First Mortgage Five Per Cent Thirty-Year Bonds, held in the Railway's Treasury, were cancelled and $1,928,000 First and Consolidated Mortgage 5% Bonds, Series B, heretofore issued to the Lessees in reimbursement for certain expenditures made by them under the terms of the Lease, were surrendered by the Lessees for cancellation in exchange for credit, on open account on the books of the Railway, in favor of the Lessees, the Railway agreeing with the Reconstruction Finance Corporation not to issue the $1,500,000 of First and Consolidated Mortgage 6% Bonds, Series A, remaining unissued of

the $9,500,000 of Series A Bonds authorized in 1922, nor any bonds in place of the aforesaid $850,000 First Mortgage Five Per Cent Thirty-Year Bonds and $1,928,000 First and Consolidated Mortgage 5% Bonds, Series B, cancelled, while the Promissory Note to the Reconstruction Finance Corporation, or the interest thereon, is outstanding and unpaid.

The Railway's First Mortgage, dated June 1, 1908, has been satisfied, released and discharged of record.

The refinancing above described was authorized by the Board of Directors of the Railway in resolutions adopted on April 21, 1938, and by the Interstate Commerce Commission on May 20, 1938—Finance Dockets Nos. 12019, 12020 and 12021.

Two unsecured, non-interest bearing Promissory Notes, dated December 26, 1936, for an aggregate amount of $929,486.79, issued by this Railway to the Lessees as evidence of indebtedness for expenditures made by them in paying certain Equipment Trust obligations of the Railway, which were reduced by adjustment of accounts in 1937 to an aggregate amount of $912,886.56, fell due on December 24, 1938. In order to facilitate future settlements of accounts between the Lessees and this Railway, as Lessor, it was deemed advisable that said notes, as reduced, should not be extended at maturity. Accordingly, the notes were surrendered by the Lessees for cancellation in exchange for credit, on open account on the books of the Railway, in favor of the Lessees.

Submitted as a part of this report are a statement of mileage, a summary of the operation of the leased properties, a copy of the consolidated balance sheet and a statement of the funded debt.

For the Board of Directors,

JOHN B. DENNIS,
President.

MILEAGE

The mileage owned by Carolina, Clinchfield and Ohio Railway and its subsidiaries, Carolina, Clinchfield and Ohio Railway of South Carolina and Clinchfield Northern Railway of Kentucky, is as follows:

	Miles
Carolina, Clinchfield and Ohio Railway:	
Main line: Ky.-Va. State Line to N. C.-S. C. State Line....	255.97
Branch lines: Carbo, Va., to Wilder, Va.....	8.40
Bostic Yard, N. C., to Junction S. A. L. Ry...	.79
Carolina, Clinchfield and Ohio Railway of South Carolina:	
Main line: N. C.-S. C. State Line to Spartanburg, S. C.....	18.09
Clinchfield Northern Railway of Kentucky:	
Main line: Elkhorn City, Ky., to Ky.-Va. State Line.....	2.79
Total.....	286.04

The foregoing mileage since December 1, 1924, has been operated by the said Lessees under the name of "Clinchfield Railroad Company."

In addition to the foregoing mileage, the Lessees also operate the following mileage under trackage rights formerly held by Carolina, Clinchfield and Ohio Railway System:

Chesapeake and Ohio Railway, Elkhorn City, Ky.....	.13
Norfolk & Western Railway, Carbo, Va., to St. Paul, Va.....	8.45
Southern Railway: Frisco, Tenn., to Albert Yard, Va.....	13.60
" " Spartanburg, S. C.....	.09
Total.....	22.27

This makes the total mileage operated by the Lessees, under the Lease, 308.31 miles.

RESULTS OF OPERATION BY LESSEES

The following is a summary of the results of operation of the leased properties, for the year ended December 31, 1938, as reported by the Lessees:

Railway operating revenues		$5,900,718.75
Railway operating expenses		3,273,385.36
Net revenue from railway operations		$2,627,333.39
Railway tax accruals		591,870.02
Railway operating income		$2,035,463.37
Equipment rents	$204,488.38	
Joint facility rents ..... *Dr.*	*2,564.48*	201,923.90
Net railway operating income		$2,237,387.27
Non-operating income		24,069.59
Gross income		$2,261,456.86
Deductions from gross income:		
Lessor's fixed charges	$1,150,610.55	
Dividend rental	1,250,000.00	
Lessor's taxes	208,204.86	
Miscellaneous rental	18,419.54	
Total rental under Lease	$2,627,234.95	
Other deductions	41,523.77	2,668,758.72
Net Loss		$ 407,301.86

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

(Including Subsidiary Lines, C. C. & O. Ry. of S. C. and Clinchfield Northern Ry. of Kentucky)

CONSOLIDATED GENERAL BALANCE SHEET

DECEMBER 31, 1938

ASSETS

Investment in road and equipment	$65,553,134.55
Deposits in lieu of mortgaged property sold	321,984.34
Miscellaneous physical property	64,388.87
Cash	86.91
Special deposits	2,000.00
Rents receivable	312,500.00
Working fund advances	100.00
Other deferred assets	4,251,711.38
Total	$70,505,906.05

LIABILITIES

Capital stock	$25,000,000.00
Funded debt	22,150,000.00
Funded debt matured unpaid	2,000.00
Unmatured dividends declared	312,500.00
Other deferred liabilities	3,357,329.35
Accrued depreciation—Equipment	2,081,141.46
Additions to property through income and surplus	70,991.90
Profit and loss—Credit balance	17,531,943.34
Total	$70,505,906.05

STATEMENT OF FUNDED DEBT

DECEMBER 31, 1938

Name of Security	Amount Outstanding	Date of Maturity	Rate Per Annum	Interest Payable
First and Consolidated Mortgage Bonds, Series A	$ 8,000,000	Dec. 15, 1952	6%	June 15 and Dec. 15
Promissory Note to Reconstruction Finance Corporation	14,150,000*	May 27, 1943	Not to exceed 5%**	May 27 and Nov. 27
Total	$22,150,000			

* Secured by pledge of $14,150,000 First and Consolidated Mortgage 5% Bonds, Series B, dated April 1, 1926, due April 1, 1956.

** Current rate, 4%.

CERTIFICATE
LETTER